Understanding Wealth Accumulation (Non-Superannuation)

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This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to wealth accumulation (non-superannuation).

Important information

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This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice.

As legislation may change you should ensure you have the most recent version of this document.

How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task.

There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important that you understand how these issues will impact on you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **wealth accumulation (non-superannuation).**

It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks.

Please contact your Adviser if you do not understand anything, or need further information or clarification.

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Cash Management Trust

Cash management trusts invest in highly liquid secure investments, such as short-term securities issued by the Australian Government, banks and corporate borrowers. They are generally able to offer a higher level of interest than a traditional bank account.

Investors are generally provided with deposit and cheque book facilities, optional telephone withdrawal and internet facilities, plus overnight access to their funds. In most cases these types of accounts do not incur entry and exit fees.

Factors to be aware of:

- Account management and other fees may be charged.
- You may have to keep a minimum balance in the account.
- A high percentage of your funds are to be invested in conservative asset classes. Although this should reduce the potential volatility of investment returns, you may be foregoing potential capital growth opportunities.

Term Deposits

A term deposit is a secure, fixed rate investment for a fixed term. Term deposits are popular for investors that want to have certainty of a known interest rate and return. Investors may be able to withdraw funds before maturity although a penalty may be charged. Interest may be paid at maturity, or either monthly, quarterly or annually. At the maturity of the investment term, interest can be paid into a nominated financial institution account, or added to the principal and reinvested for another term.

Factors to be aware of:

- Loss of immediate access to your funds.
- There is often a penalty applied by the provider if the investment is withdrawn before the end of the agreed term.

Managed Funds

Managed funds allow investors to pool their money with an investment manager who has extensive research facilities and experience. Managed funds generally provide a combination of income (including realised capital gains), and the potential for capital growth over the medium to long-term. Generally, income distributions can be either be reinvested, or paid to a nominated bank account

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Advantages of Managed Funds

Some of the advantages of managed fund investments include:

- **Diversification** – The large pool of funds available enables fund managers to diversify the spread of investments across all asset classes as well as providing access to investments which may not be readily available to individual investors, such as large retail property complexes and international shares.
- **Professional management and expertise** – Fund managers have the expertise to monitor and research investment opportunities, and apply their investment experience in managing investment portfolios across all asset classes.
- **Economies of scale** – Investors in managed funds can access economies of scale in areas such as volume discounts on brokerage and other fees.
- **Liquidity** – Investors in managed funds can usually access their funds within 5–30 days (excluding superannuation investments), and are usually able to access a part of their funds without needing to cash in the whole investment.
- **Regular reporting and information** – Managed funds can take care of the administrative hassles and expenses, which would normally accompany direct ownership of investments. Fund managers also provide regular information to investors regarding investment performance and year-end tax summaries.
- **Tax advantages** – income distributions may be tax advantaged through imputation credits for investments with underlying Australian share assets.

Factors to be aware of:

- The capital value of managed funds may fluctuate, particularly in the short-term.
- Capital Gains Tax may be payable on any growth in the value of your investments when you eventually redeem or sell them.
- Income distributions are not guaranteed and may fluctuate over time.
- Re-invested income will still form part of assessable income for tax purposes.
- You will pay internal management fees to invest into managed funds.
- Loss of immediate access to your funds.

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Dollar Cost Averaging

Dollar cost averaging involves investing a set amount of money at regular intervals. By investing this way you are not attempting to pick the lows or highs of the market, but rather investing a fixed dollar amount regardless of investment market trends.

The following example shows a dollar cost averaged share investment. A fixed amount of $1,000 was invested in a share each month as the market price fell and then recovered to its original value.

Month	Amount Invested	Share Price	Units Purchased
1	$1,000	$20.00	50
2	$1,000	$15.00	66
3	$1,000	$10.00	100
4	$1,000	$15.00	66
5	$1,000	$20.00	50
Total	**$5,000**		**332**

In this example, by dollar cost averaging into the market, the shares were purchased at an average cost of $15.06 ($5,000/332). After five months, the investment was valued at $6,640 (332 shares at $20 per share), a profit of $1,640. If the shares had been purchased at the commencement of the five months (ie at $20), there would not have been any gain on the investment when the shares returned to their original value at the end of the five-month period. The $5,000 invested would still have the same value, ignoring the dividend income.

Advantages of Dollar Cost Averaging

Some of the advantages of dollar cost averaging include:

- By regularly investing in an investment market, you are not relying on timing strategies aimed at picking when a market has bottomed or peaked. Dollar cost averaging imposes a helpful investment discipline by completely ignoring timing issues.
- Dollar cost averaging can be beneficial when markets may fall. This is because only a fraction of the total amount to be invested is exposed to declines in the market. Also, when the market price falls, your regular investment amount will purchase more investment shares or units.
- Dollar cost averaging provides a sound savings regime and is an ideal investment strategy for people with a regular income but without large sums to invest.

Factors to be aware of:

- When market prices are trending upwards, a portfolio purchased up front will do better than the portfolio purchased using dollar cost averaging. This is because the full gain on the price rise is captured by the full amount of money invested up front.
- Over a time period in which prices fall steadily, a dollar cost averaging portfolio will still lose money. Nonetheless, dollar cost averaging will generally lose less than an up front purchased portfolio.

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